



The Commonwealth of Massachusetts  
Executive Office of Health and Human Services  
Division of Health Care Finance and Policy  
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Boston, MA 02116

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JUDYANN BIGBY, M.D.  
Secretary

TIMOTHY P. MURRAY  
Lieutenant Governor

DAVID MORALES  
Commissioner

February 12, 2010

Ronald A. Williams  
CEO  
Aetna Health, Inc.  
151 Farmington Avenue  
Hartford, CT 06156  
860-273-0123

Dear Mr. Williams:

The Division of Health Care Finance & Policy (Division), in collaboration with the Attorney General's Office (AGO), is required by state law to hold annual public hearings concerning health care provider and insurer costs and cost trends. (See the public notice attached as "Exhibit A.") Massachusetts General Law, chapter 118G §6½ requires the Division to identify a representative sample of health care providers and payers as witnesses for such hearing. In accordance with these provisions, Aetna Health, Inc. has been identified as a witness and is hereby requested to submit written testimony to the questions in "Exhibit B" and "Exhibit C" in accordance with this notice and exhibits.

The goals of the questions in "Exhibit B" are to examine and verify the findings presented in the Division's three preliminary reports: The Massachusetts Health Care System in Context: Costs, Structure, and Methods Used by Private Insurance Carriers to Pay Providers; Private Health Insurance Premium Trends 2006-2008; and Health Spending Trends for Privately Insured 2006-2008. (The Division's findings and research are located at [www.mass.gov/dhcfp/costtrends](http://www.mass.gov/dhcfp/costtrends).) Specifically, the Division seeks to understand to what extent - if any - your organization's experience varies from the agency's findings, to solicit additional information that explains the premium and cost increases, to gather your perspective on the dynamics driving the trends observed, and to obtain your recommendations for short and long term solutions to such dynamics.

Moreover, the Attorney General's Office recently released a Preliminary Report on its Investigation of Health Care Cost Trends and Cost Drivers pursuant to M.G.L. c. 118G, § 6½(b) ([http://www.mass.gov/Cago/docs/healthcare/Investigation\\_HCCT&CD.pdf](http://www.mass.gov/Cago/docs/healthcare/Investigation_HCCT&CD.pdf)), which will also be the subject of these hearings. Based on the findings of that Preliminary Report, the Attorney General's Office has provided additional questions requiring written testimony in "Exhibit C."

While this testimony must be in writing, you may also be called for oral testimony on one or more of the hearing dates scheduled to take place on March 16, 18, and 19, 2010. Please be advised

that additional dates the following week may be necessary to accomplish the Division's statutory directives.

With your assistance and active participation, the Division seeks to develop tangible policy recommendations to mitigate health care cost growth and to develop an integrated health care delivery system in a final report to the Legislature.

Aetna Health, Inc. is required to:

1. electronically submit to the Division written testimony, signed under the pains and penalties of perjury, responding to the areas of inquiry identified on the attached "Exhibit B" and "Exhibit C" on or before – but no later than - close of business Friday, February 26, 2010; and
2. be prepared to appear at a public hearing to provide oral testimony at some time during, but not limited to, the following days: March 16, 18, and 19.

The written testimony should be submitted to [costtrends@hcf.state.ma.us](mailto:costtrends@hcf.state.ma.us). Any and all written testimony will be a public record and will be posted on the Division's website. The Division will contact Aetna Health, Inc. no later than March 5<sup>th</sup> and determine whether you will be required to provide oral testimony at the hearings, and if so, the time period for which you must be present. Thank you for your attention to this important and timely matter.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Morales", with a stylized flourish at the end.

David Morales  
Commissioner

cc: Thomas O'Brien, Office of the Attorney General

Enclosures:

Exhibit A: Public Notice of Hearing

Exhibit B: Instructions and DHCFP Questions for Written Testimony

Exhibit C: Instructions and AGO Questions for Written Testimony

## Exhibit A

### NOTICE OF PUBLIC HEARING

Pursuant to the provisions of M.G.L. c.118G, §6 ½ the Division of Health Care Finance and Policy ("Division") will hold a public hearing beginning Tuesday March 16, 2010 at 10:00 AM at the Reggie Lewis Center, 1350 Tremont Street, Roxbury Crossing, MA 02120, and subsequent days thereafter regarding:

#### HEALTH CARE PROVIDER AND PAYER COSTS AND COST TRENDS

Commissioner David Morales will preside over the hearings, which may be expected to continue through March 31, 2010. The Division shall call as witnesses a representative sample of providers and payers, including but not limited to those specified by the statute, who shall provide testimony under oath and subject to examination and cross examination by the Division and the Attorney General, as authorized by M.G.L. c. 118G, §§ 6 and 6 ½, regarding the factors that contribute to cost growth within the Commonwealth of Massachusetts' health care system and to the relationship between provider costs and payer premium rates. The Division reserves the right to call other witnesses in furtherance of the statutory purpose of the hearings.

Testimony may include without limitation: (i) in the case of providers, testimony concerning payment systems, payer mix, cost structures, administrative and labor costs, capital and technology costs, adequacy of public payer reimbursement levels, reserve levels, utilization trends, and cost-containment strategies, the relation of private payer reimbursement levels to public payer reimbursements for similar services, efforts to improve the efficiency of the delivery system, efforts to reduce the inappropriate or duplicative use of technology; and (ii) in the case of private and public payers, testimony concerning factors underlying premium cost and rate increases, the relation of reserves to premium costs, the payer's efforts to develop benefit design and payment policies that enhance product affordability and encourage efficient use of health resources and technology, efforts by the payer to increase consumer access to health care information, and efforts by the payer to promote the standardization of administrative practices, and any other matters as determined by the Division.

The Division will schedule and accept oral testimony only from witnesses called by the Division; any member of the public may submit written testimony. All written testimony provided by witnesses or the public may be posted on the Division's website: <http://www.mass.gov/dhcfp>.

Additional information regarding the hearings may be posted from time to time on the Division's website.

## Exhibit B: Instructions and DHCFP Questions for Written Testimony

### Instructions

- 1) On or before the close of business February 26, 2010, electronically submit written testimony signed under the pains and penalties of perjury to: [costtrends@hcf.state.ma.us](mailto:costtrends@hcf.state.ma.us).
- 2) Answer all questions that apply to your organization's experience, limiting your response to no more than 500 words per each numbered question. Please begin all questions with a brief summary not to exceed 120 words. If necessary, please include supporting testimony in an Appendix.
- 3) The testimony must contain a statement that the person who signs it is legally authorized and empowered to represent the named organization for the purposes of this testimony, and that the testimony is signed under the pains and penalties of perjury. An electronic signature will be sufficient for this submission.
- 4) If you have any questions regarding this process or regarding the following questions, please contact: Kate Nordahl, Assistant Commissioner, at [Kate.Nordahl@state.ma.us](mailto:Kate.Nordahl@state.ma.us) or (617) 727-7662 (fax).

### Questions

- 1) After reviewing the preliminary reports located at [www.mass.gov/dhcfp/costtrends](http://www.mass.gov/dhcfp/costtrends) please provide commentary on any data, or finding that differs from your organization's experience and the potential reasons therefore.

#### Questions Regarding Premium Pricing and Market Sector Differences

- 2) What were the differences by market sector in general administrative expenses built into your pricing from 2008 to the present? What portion of the differential by group size was attributable to fixed costs being spread over different group sizes? To what was the remainder of the difference attributable?
- 3) We found that, when adjusted for differences in benefits and demographics, small employers are being charged higher premiums and are experiencing a greater growth in premiums than mid-sized and large firms. Is this finding consistent with your health plan's experience? Please comment on why you think this is happening and what can be done to assist small employers.
- 4) We also found that most of the difference in adjusted premium levels for small group vs. mid-size and large group was due to differences in medical spending rather than retention. Is this finding consistent with your health plan's experience? Please comment on why you think this is happening and what can be done to assist small employers.
- 5) Small firms (with fewer than 51 employees) frequently indicate receipt of double digit premium increases even though our analysis shows the average premium PMPM increase for the small group market during the period studied to be below 10%. Please provide the distribution of premium increases for small employers renewing in 2008 and 2009 that were quoted assuming that no benefit changes would be made by the employer.

- 6) We understand that premiums for any given effective date are set prospectively based on claims experience from approximately a year and a half earlier. How well have your estimates matched actuals in 2006-2009? Do you see increasing volatility in claims costs, or prices/utilization rising more quickly than anticipated?

#### Questions Regarding Trend Towards Self-insured

- 7) We have seen an increase in the percent of members enrolled in self-insured plans over the past few years. Please provide information on the size of the firms that are becoming self-insured. Does it differ from those firms that have traditionally self-insured? What rationale are employers providing for changing to self-insured plans?
- 8) Please provide an overview of the reinsurance products that the newly self-insured employers purchase from your organization.
- 9) We found that the growth in spending for health care services in self-insured and insured large groups was faster than that in small and mid-sized groups. We also found that these groups generally offered richer benefit packages and have had a slower "buy-down" than the other markets. Has your organization found a similar trend? If so, to what can you attribute this trend? Are there other factors associated with this trend besides the cost sharing differences for members? Has this trend continued in 2009 and 2010?

#### Questions Regarding Claims Trends

- 10) We found that increased prices were the most important driver of health care costs. We were unable to determine how much of the price increase was because of higher negotiated base rates and how much was because of care being delivered in more expensive settings. What do you believe to be the relative contribution to price increases of this shift to more expensive locations? What solutions, if any, are you developing to address this trend?
- 11) We found that expenditures on hospital outpatient facility services grew – both due to increases in prices and an increase in the volume of services. In examining your plan's experience, what have you found accounts for the growth of hospital outpatient facility prices per service? What accounts for the growth in utilization of outpatient hospital facility services? Do you foresee the same factors continuing to drive high growth in facility charges in future years? What might be done to mitigate this cost growth?
- 12) By how much do the rates your organization pays vary when procedures are provided in hospital facilities rather than freestanding facilities or a physician's office? How do these rates correlate with underlying costs of these different providers?
- 13) The growth in imaging services continues to be an important factor in cost growth. What steps are you taking, if any, to reduce the growth rate in imaging services? Do you have different pre-authorization policies for imaging services done in an outpatient facility, freestanding facility and a physician's office? If so, please provide a brief description.

## Questions Regarding Provider Rate Negotiations

- 14) What factors do you consider when negotiating payment rates for inpatient care, facility charges for outpatient care, and physicians, and other professionals? Please explain each factor and rank them in the order of impact on negotiated rates.
- 15) Is there a material difference in how you approach contracts when you are contracting with a health care system vs. contracting with organizations representing a single facility or provider group?
- 16) We understand that certain systems demand higher rates because of geographic isolation, specialty practice and reputation. Please explain your understanding of this dynamic. Has this always been the case? Has this pattern changed over the past 10-20 years?

## Questions Regarding Possible Approaches to Mitigating Cost Growth

- 17) What actions is your organization currently undertaking that could slow the growth in premiums, including but not limited to alternative payment methods, provider network strategies, benefit designs and consumer information and incentives.
  - a. What current factors limit your ability to execute these strategies or limit their effectiveness?
  - b. What systemic or policy changes would allow you to carry out these strategies more effectively?
  - c. What other systemic or policy changes do you think would encourage or help health care providers to operate more efficiently without reducing quality?
- 18) Could enhanced competition or government intervention or a combination of both mitigate the cost trends found in the Divisions report? Please describe the nature of the changes you would recommend. In addition, please address the following:
  - a. What would be the impact on your organization of making data public regarding quality and the reimbursement rates paid by each carrier to each hospital or system in a manner that identifies all relevant organizations? What is the advantage or disadvantage to your organization of the current confidential system?

## Other Questions

- 19) Please identify any additional cost drivers that you believe should be examined in subsequent years and explain your reasoning.
- 20) Please provide any additional comments or observations you believe will help to inform our hearing and our final recommendations.

## Exhibit C: Instructions and AGO Questions for Written Testimony

### Instructions

- 1) On or before the close of business February 26, 2010, electronically submit written testimony signed under the pains and penalties of perjury to: [costtrends@hcf.state.ma.us](mailto:costtrends@hcf.state.ma.us).
- 2) Answer all questions that apply to your organization's experience, limiting your response to no more than 500 words per each numbered question. Please begin all questions with a brief summary not to exceed 120 words. If necessary, please include supporting testimony in an Appendix.
- 3) The testimony must contain a statement that the person who signs it is legally authorized and empowered to represent the named organization for the purposes of this testimony, and that the testimony is signed under the pains and penalties of perjury. An electronic signature will be sufficient for this submission.
- 4) If you have any questions regarding this process or regarding the following questions, please contact: Ashley Reid, Office of the Attorney General, at [Ashley.Reid@state.ma.us](mailto:Ashley.Reid@state.ma.us), (617) 963-2488, or (617) 573-5386 (fax).

### Questions

- 1) Please explain and submit a summary table showing the range of your relative commercial prices or payments from 2004-2008 for each acute care hospital and large physician group in Massachusetts (i.e., physicians who contract through a PHO, IPA, multi-specialty group, or other group arrangement).
- 2) Please explain and submit supporting documents that show the results of any analysis you have done on the extent to which the range in your relative commercial prices for Massachusetts providers is correlated to: (1) the quality of care you have measured or tracked for the providers, (2) the sickness or complexity of the population being served, (3) the relative market position of the provider in your network, or (4) other factors that you have considered in negotiating and setting price or payment rates for providers.
- 3) Please explain and submit a summary table showing the range of health status-adjusted fully-loaded total medical expenses you paid on a per member per month basis from 2004 to 2008 for each Massachusetts provider in your network who contracts through a PHO, IPA, multi-specialty group, or other group arrangement, with each provider identified by whether it was paid on a global payment basis (i.e., any form of risk payment with a potential for a deficit beyond retention) or on a fee-for-service basis. "Fully-loaded" means inclusive of all administrative, medical management, and other supplemental payments, including but not limited to bonuses, grants, infrastructure funding, and reinsurance recoveries.
- 4) Please explain and submit a summary table showing your premium trends from 2004 to 2008 with details on how much of your premium trend resulted from increases in administrative costs, reserve practices, and medical trend, including the proportion of medical trend that resulted from (1) health care provider unit price increases, (2) changes in utilization, and (3) all other factors, such as changes in mix of services, mix of location of services, member demographics, and plan design.

- 5) Please explain and submit supporting documents that show how your organization has considered steps to reduce the premium trend for small groups and large groups, including any analysis of alternative payment mechanisms for providers, and any limited-network or tiered products for consumers.
- 6) Please explain and submit supporting documents that show how your organization has considered steps to reduce the range of relative prices and total medical expenses you pay to providers in Massachusetts, including any analysis of alternative payment mechanisms for providers, and any limited-network or tiered products for consumers.